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PAGE 01 LONDON 02029 01 OF 03 101459Z

51

ACTION EUR-12

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DEPARTMENT PASS TREASURY AND FRB

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SUBJECT: LABOR GOVERNMENT'S INDUSTRY BILL; BASIS FOR INCREASED STATE OF CONTROL OF INDUSTRY

REF: LONDON 10686, AUGUST 21, 1974; A-695, AUGUST 27, 1974

AND AMMERMAN-HODGE TELECON, 2-6-75; STATE 26141

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PAGE 02 LONDON 02029 01 OF 03 101459Z

BEGIN SUMMARY: IN BASIC FORM, THE GOVERNMENT'S INDUSTRY BILL DIFFERS LITTLE FROM THE WHITE PAPER "REGENERATION OF BRITISH INDUSTRY," OF LAST AUGUST, WHICH OUTLINED GOVERNMENT PLANS TO BECOME MORE INVOLVED IN INDUSTRIAL DECISION MAKING. BUT IN FILLING IN THE BLANKS LEFT BY THE WHITE PAPER, SOME OF THE AMBIGUITY AS TO WHETHER THE GOVERNMENT INTENDS A MODERATE INDICATIVE PLANNING MODEL OR A MORE EXTENSIVE PLANNING/CONTROL MECHANISM IS DISSIPATED. THE BILL ITSELF FORESEES EXTENSIVE PLANNING AND PARTICIPATION BY THE STATE AND THE UNIONS IN INDUSTRIAL POLICY. THE SECRETARY OF STATE FOR INDUSTRY IS GIVEN WIDE POWER INHIBITED MAINLY, AS FAR AS WE CAN SEE, BY THE PROVISION OF CONSULTATION ON INVESTMENT QUESTIONS WITH THE UK TREASURY AND TREASURY APPROVAL ON MANY FINANCIAL TRANSACTIONS. GIVEN THE TREASURY'S RELATIVE POWER, THIS, IN REALITY, MAY PROVE A DECISIVE IMPEDIMENT TO BROAD GOVERNMENT CONTROL AND PARTICIPATION IN INDUSTRY. BUT THE EXTENT OF THE POWER GIVEN TO THE INDUSTRY SECRETARY HAS CAUSED GREAT WORRY. THE BILL WILL PROBABLY BE AMENDED IN ITS PASSAGE THROUGH PARLIAMENT, BUT WITH THE GOVERNMENT OBVIOUSLY FEELING ITS POWER, AND THE OPPOSITION STILL IN SOME DISARRAY, THE EXTENT OF SUCH AMENDMENT IS PROBLEMATICAL. THE MOST CONTROVERSIAL PART OF THE BILL IS THE REQUIREMENT FOR LARGE MANUFACTURING COMPANIES TO DISCLOSE INFORMATION TO THE GOVERNMENT AND THE UNIONS. THIS PROVISION, WHICH APPLIES TO BRANCHES AND SUBSIDIARIES OF FOREIGN FIRMS, WILL TEND TO INHIBIT FOREIGN INVESTMENT AND COULD LEAD TO POLITICAL TENSIONS WITH THE U.S. IF AMERICAN FIRMS (LARGE MANUFACTURERS SUCH AS FORD AND GENERAL MOTORS) RESIST. THE INFORMATION REQUIRED, HOWEVER, IS STRICTLY LIMITED TO UK OPERATIONS. END SUMMARY

1. THE INDUSTRY BILL INTRODUCED LAST WEEK SETS FORTH TWO OF THREE MAJOR MECHANISMS FOR GOVERNMENT PARTICIPATION IN INDUSTRY PROMISED IN AUGUST WHITE PAPER. MAJOR OMISSION IS ANY PROVISION FOR NATIONALIZATION OF INDUSTRIES. THIS IS INTENDED TO COME LATER AND SEPARATELY.

2. NATIONAL ENTERPRISE BOARD (NEB) IS TO BE ESTABLISHED BY BILL. IT WILL CONSIST OF 15 MEMBERS, AND BE CHAIRED

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PAGE 03 LONDON 02029 01 OF 03 101459Z

BY SIR DON RYDER, A FORMER INDUSTRIALIST. THE NEB WILL BE LIMITED TO 700 MILLION POUNDS (WHICH CAN BE INCREASED TO 1 BILLION POUNDS) IN THE AMOUNT IT CAN INITIALLY BORROW. THESE FUNDS WILL BE USED TO ACQUIRE EQUITY IN COMPANIES OR TO LEND TO THEM. ITS OBJECTIVES ARE TO PROMOTE INDUSTRIAL EFFICIENCY AND COMPETITIVENESS AS WELL AS SAFEGUARDING EMPLOYMENT. THUS, IT WILL MAINLY BUY INTO PROFITABLE COMPANIES IN MAJOR INDUSTRIES LEAVING RESCUE

OF "LAME DUCKS" TO GOVERNMENT AGENCIES. HOWEVER, IT WILL CERTAINLY UNDERTAKE SOME RESCUE OPERATIONS WHERE EQUITY CAPITAL IS THE ONLY SOLUTION.

3. THE NEB IS RESTRICTED TO NOT MORE THAN 30 PERCENT OF EQUITY HOLDING IN ANY COMPANY AND TO A LIMIT OF 10 MILLION POUNDS OF ANY COMPANY'S SHARES. HOWEVER, THESE LIMITS MAY BE WAIVED BY THE SECRETARY OF STATE FOR INDUSTRY. MORE IMPORTANT, THE NEB HAS NO POWERS TO REQUIRE COMPANIES TO SELL EQUITY TO IT. THUS, ALL NEB PURCHASES MUST BE WITH COMPANY APPROVAL. IT IS THUS UNLIKELY TO AFFECT FOREIGN SUBSIDIARIES.

4. THE MAIN LIMIT TO NEB OPERATIONS APPEARS TO BE A CLAUSE

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PAGE 01 LONDON 02029 02 OF 03 101459Z

51

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LIMITED OFFICIAL USE SECTION 02 OF 03 LONDON 02029

REQUIRING TREASURY CONCURRENCE THAT THE NEB'S INVESTMENTS
ARE LIKELY TO RESULT IN AN "ADEQUATE RETURN TO CAPITAL."

5. SEPARATE PROVISIONS FOR FINANCIAL ASSISTANCE TO COMPANIES ARE INCLUDED THROUGH AMENDING THE PRESENT INDUSTRY ACT WHICH ALLOWS SUCH FINANCIAL ASSISTANCE UNDER TWO PROVISIONS (SECTIONS 7 AND 8). THESE ALLOW ASSISTANCE TO
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PAGE 02 LONDON 02029 02 OF 03 101459Z

FIRMS PLANNING NEW OR EXPANDED OPERATIONS IN DEVELOPMENT REGIONS (SECTION 7) AND ASSISTANCE TO INDUSTRY IN NEED ON THE BASIS OF NATIONAL INTEREST (SECTION 8). SUCH ASSISTANCE WILL CONTINUE EVEN MORE LIBERALLY UNDER THE NEW BILL. THE NEW BILL REMOVES THE REQUIREMENT IN THE EXISTING ACT THAT EQUITY PARTICIPATION IN INDUSTRY SEEKING HELP UNDER EITHER PROVISION BE NO MORE THAN 50 PERCENT AS WELL AS THE TIME LIMIT OF END-1977 FOR SECTION 8. THE REQUIREMENT THAT SUCH EQUITY BE DISPOSED OF AS SOON AS PRACTICABLE IS ALSO REMOVED BY THE NEW BILL. THE GOVERNMENT CAN ITSELF RETAIN OWNERSHIP.

6. THE BILL PROVIDES THAT GRANTS OR SUBSIDIES FOR INVESTMENT IN DEVELOPMENT REGIONS ARE NOT TO BE REDUCED FOR COMPANIES WITH PLANNING AGREEMENTS WITH THE GOVERNMENT.

7. FOREIGN TAKEOVERS, "CONTRARY TO THE INTERESTS OF THE UK OR OF ANY SUBSTANTIAL PART OF IT," CAN BE PROHIBITED BY INDUSTRY SECRETARY. IN CONJUNCTION WITH TREASURY, HE CAN ALSO TAKE FOR THE GOVERNMENT (WITH COMPENSATION) ASSETS IN A CORPORATION TO PREVENT FOREIGN TAKEOVER, EITHER DIRECTLY OR THROUGH NEB. THIS CAN BE DONE WITHIN 3 MONTHS OF THE PROHIBITION OF A FOREIGN TAKEOVER OR WITHIN 3 MONTHS OF THE INDUSTRY SECRETARY'S LEARNING OF A FOREIGN TAKEOVER, WITH PARLIAMENT'S APPROVAL. A PROHIBITION OF A FOREIGN TAKEOVER IS ONLY VALID FOR 28 DAYS, AFTER WHICH THE TAKEOVER MAY PROCEED.

8. COMPANIES WOULD BE REQUIRED, UNDER THE BILL, TO FURNISH INFORMATION TO THE GOVERNMENT IF IT IS DETERMINED THAT THE COMPANY "MAKES A SIGNIFICANT CONTRIBUTION TO A SECTOR OF INDUSTRY IMPORTANT TO THE ECONOMY OF THE UK." SUCH

INFORMATION WILL COVER LABOR EMPLOYED, CAPITAL EXPENDITURE AND STRUCTURE, OUTPUT AND PRODUCTIVITY, SALES, EXPORTS, ETC. THE GOVERNMENT MAY, IN TURN, FURNISH LABOR UNIONS WITH THE INFORMATION PROVIDED BY COMPANIES. COMPANIES CAN APPEAL A DECISION TO FURNISH THIS INFORMATION TO THE UNIONS TO COMMITTEES APPOINTED BY THE INDUSTRY SECRETARY.

9. COMMENT. THE ACTUAL IMPLEMENTATION OF THE INDUSTRY BILL IS NOT YET CLEAR. READING IT LEAVES THE IMPRESSION LIMITED OFFICIAL USE

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PAGE 03 LONDON 02029 02 OF 03 101459Z

THAT INDUSTRY SECRETARY BENN HAS BEEN GIVEN A GREAT DEAL OF POWER TO MOVE TOWARD HIS SUPPOSED OBJECTIVE OF EXTENSIVE GOVERNMENT CONTROL OF THE ECONOMY. HOWEVER, EVEN OFFICIALS OF THE CONFEDERATION OF BRITISH INDUSTRY (CBI), THE BILL'S MOST VOCIFEROUS CRITIC AT PRESENT, ARE UNSURE, ON FIRST READING, AS TO HOW FAR THE LIMITS ON HIS ACTION REALLY EXTEND. IN THE BILL, THE MAIN LIMITATION WOULD SEEM TO BE TREASURY CONCURRENCE THAT INVESTMENT OF THE NEB WILL RECEIVE AN "ADEQUATE" RATE OF RETURN. IN ADDITION, IN THE FINANCIAL PROVISIONS OF THE NEB, MOST LOANS, BORROWING, DEBT ASSUMPTION FROM THE DEPARTMENT OF INDUSTRY APPEAR TO REQUIRE TREASURY APPROVAL. THIS MAY BE, IN PRACTICE, A LARGE IMPEDIMENT TO THE WHOLESALE ACQUISITION OF BRITISH INDUSTRY BY THE BRITISH GOVERNMENT THAT MANY BELIEVE BENN WOULD LIKE TO SEE.

10. THE TREASURY'S BROAD VIEW (AT LEAST ON THE WORKING LEVEL) IS THAT THE INDUSTRY BILL GIVES THE GOVERNMENT NEEDED TOOLS TO SOLVE BRITISH INDUSTRIAL PROBLEMS. THIS APPROACH OF PLANNING AND FINANCIAL SUPPORT (THROUGH THE NEB, SECTION 7 AND 8 OF THE EXISTING ACT, AND OTHER MECHANISMS) SHOULD BE IMPLEMENTED IN AN EVOLUTIONARY WAY, ACCORDING TO TREASURY, USING WHATEVER WORKS IN EACH INSTANCE TO SPUR INVESTMENT AND DIRECT IT TOWARDS THE BROAD GOALS AGREED UPON BETWEEN GOVERNMENT, INDUSTRY AND LABOR. THIS APPROACH DOES NOT EVEN RULE OUT LEAVING SOME INDUSTRIES OR SECTORS COMPLETELY ALONE, IF MARKET FORCES APPEAR TO WORK BEST.

11. IN A NARROWER CONTEXT, TREASURY OFFICIALS BELIEVE THAT THE BILL AS PRESENTLY DRAFTED GIVES THEIR AGENCY THE POWER THEY NEED TO FOLLOW THE ABOVE APPROACH. THEY NOT ONLY POINT TO THE FINANCIAL CONTROLS TREASURY HAS, BUT TO THE IDEA THAT TREASURY AGREEMENT ON BROAD INDUSTRIAL OBJECTIVES IS ALWAYS NEEDED, THUS LIMITING ACTION THAT DOES NOT REQUIRE TREASURY FINANCING. THERE IS ALSO A 15-MAN NEB

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PAGE 01 LONDON 02029 03 OF 03 101507Z

51

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LIMITED OFFICIAL USE SECTION 03 OF 03 LONDON 02029

BOARD, AND VARIOUS OTHER CONSTRAINTS ON RAPID MOVEMENT.

WHETHER ALL THIS WILL BE SUFFICIENT TO RESTRAIN THE DEPT.

OF INDUSTRY REMAINS TO BE SEEN, AND MAY DEPEND MORE ON THE

PERSONALITIES INVOLVED THAN ON THE BILL'S DRAFTING.

12. THERE WILL BE ATTEMPTS BY THE CONSERVATIVES TO AMEND
THE BILL AS IT GOES THROUGH COMMONS THIS SPRING. CBI IN-

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PAGE 02 LONDON 02029 03 OF 03 101507Z

TENDS TO FOCUS ON THREE MAIN ASPECTS IN ITS EFFORTS AT SEEKING CHANGE: (1) RETAINING THE LIMITS ON SECTION 7 AND 8 OF THE EXISTING ACT AND ADDING SUCH LIMITS TO THE NEB; (2) MODIFYING THE DISCLOSURE PROVISIONS; AND (3) REDUCE THE POWER OF THE INDUSTRY SECRETARY. WHETHER THE CONSERVATIVES CAN MOUNT AN EFFECTIVE ATTACK, GIVEN THEIR LEADERSHIP PROBLEMS, IS NOT CLEAR. BUT NO TORY LEADER IS LIKELY TO ALLOW THIS BILL TO PASS WITHOUT A SUSTAINED FIGHT TO CHANGE IT. AS FOR THE CBI, ITS EFFECTIVENESS MAY BE DILUTED BY THE FLAT OPPOSITION OF MANY OF ITS MEMBERS TO THE CONCEPTS OF PLANNING AND GOVERNMENT PARTICIPATION THAT ARE INVOLVED IN THE BILL. MUCH OF THIS MAY COME FROM MISTRUST OF THE LABOR GOVERNMENT'S (AND SPECIFICALLY MR. BENN'S) INTENTIONS. THE CBI HAS SAID, HOWEVER, THAT SOME FORM OF PLANNING/PARTICIPATION WOULD BE ACCEPTABLE.

13. THERE ARE MANY THINGS TO BE WORKED OUT YET SUCH AS THE NEB'S ATTITUDE TOWARD FOREIGN-OWNED COMPANIES, AND THE NEB'S RELATION TO THE DEPT. OF INDUSTRY, PARTICULARLY SECRETARY BENN, AS WELL AS TO THE UNITS RESPONSIBLE FOR RESCUE OPERATIONS UNDER THE PRESENT ACT. ON FIRST GLANCE,

IT WOULD SEEM PROBABLE THAT FOREIGN INVESTMENT WILL BE DISCOURAGED, PARTICULARLY BY THE INFORMATION DISCLOSURE REQUIREMENTS. AGAIN, HOWEVER, UNTIL WE KNOW HOW THIS PROVISION IS ACTUALLY IMPLEMENTED, THE OVERALL EFFECT OF THE BILL ON FOREIGN INVESTMENT IS NOT CLEAR.

14. MOST OBSERVERS OF THE UK ECONOMIC SCENE RECOGNIZE THE NEED FOR LONG-TERM STRUCTURAL CHANGE AND BELIEVE THAT SOME FORM OF COOPERATION AND PLANNING BETWEEN INDUSTRY, GOVERNMENT AND LABOR IS NECESSARY TO ACHIEVE IT. GIVEN THE DISMAL INVESTMENT RECORD BY UK INDUSTRY SINCE 1946, SOME NEW APPROACH IS NEEDED, AND THE CONSENSUS HERE SEEMS TO BE THAT THE BILL, TO SOME DEGREE, AIMS IN THE RIGHT DIRECTION. HOWEVER, THERE IS REASON FOR CONCERN THAT LEFT-WING IDEOLOGY RATHER THAN MODERATE EVOLUTIONARY PRINCIPLES WILL BE THE PREDOMINANT FORCE IN THIS ATTEMPT TO REGENERATE BRITISH INDUSTRY, AND THAT SUCH AN APPROACH WILL BE COUNTER-PRODUCTIVE. THE EMBASSY ALSO NOTES THE SEEMING TILT IN THE INDUSTRY BILL TOWARDS MAINTENANCE OF EMPLOYMENT RATHER THAN EFFICIENCY OF OPERATIONS. WHETHER THIS WILL PROVE THE OVERRIDING OBJECTIVE IN PRACTICE WILL ONLY

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PAGE 03 LONDON 02029 03 OF 03 101507Z

MARGARET P. GRAFELD DECLASSIFIED/RELEASED US DEPARTMENT OF STATE EO SYSTEMATIC REVIEW 05 JUL 2006

BE KNOWN AS THE BILL IS IMPLEMENTED. IF SO, THE NECESSARY LONG-TERM STRUCTURAL REFORM WILL STILL AWAIT ANOTHER APPROACH OR ANOTHER INDUSTRY BILL, AS THE STATE COLLECTS A CHAIN OF LAME DUCKS AND INTERFERES IN THE WORKINGS OF PROFITABLE COMPANIES.

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